Aberdeen & Grampian Chamber of Commerce

Energy Transition

36th Survey

Aberdeen & Grampian Chamber of Commerce

ETZ ENERGY TRANSITION ZONE

KPMG

Research Chamber

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Sponsor forewords

Net zero remains a non-negotiable for the country, for business and for society. The journey of the offshore oil and gas sector towards a greener future isn't a new one, and with oil and gas likely to remain a vital part of our energy mix for decades to come, we still have some distance to go.

At the start of this year, rising gas prices were exacerbated by the war in Ukraine, driven by a combination of strong demand from China and Western oil majors cutting back on exploration and production.

In recent months we've seen global leaders, including in the UK, commit to opening new sites for drilling to achieve long term energy security. This makes sense, so long as it is part of a co-ordinated transition plan and within the framework of the overall carbon budgets. But locking us in for long-term fossil fuel-based generation cannot be used as a panacea in the current energy security crisis. And the oil and gas industry understands that all too well.

The Energy Transition Survey, which KPMG UK proudly sponsors – has followed Scotland's energy sector through boom times and bad times over the years. As you'll read in the 36th edition of the survey, the sector is buoyant, and has a positive outlook on future revenue, headcounts, and frequency of work.

However, a big concern for companies operating in the North Sea is access to skills and labour - one of the most important pieces in the energy transition puzzle. The sector is continuing to lose people, although we are seeing growing trends of people moving from hydrocarbon-intensive to clean energy roles. There is also increasing investment flowing into national education systems to upskill a greener workforce of the future, although clearly this will take some time to flow through to the labour pool.

Skilled workers have become almost as precious a commodity as the energy they produce. And our latest research suggests this problem is only going to become more acute – with firms we surveyed clearly concerned about how to attract new people from outside the industry to work in the sector.

Those firms who can demonstrate their willingness to embrace the energy transition and their desire to flourish in the economy of the future will find that retaining and attracting talent will not be as challenging.

Indeed, what companies do now across the three ESG strands of environmental, social and governance will determine the talent they attract, the customers they serve, the profits they make, and ultimately the impact they will have on society.

The direction of travel is clear amongst oil & gas firms. They are expecting their businesses to transform substantially and at pace across the next decade. The firms we surveyed predict that, on average, the share of their business outside of oil and gas will jump to 47% by 2030.

With growing demand to support North Sea offshore wind development via leasing rounds, as well as traditional decommissioning projects, the work will continue to grow and vary. Indeed, in this survey we found that offshore wind activity had overtaken decommissioning as the second biggest activity outside of oil and gas.

Most of the sector believe that strong energy transition credentials are critical to their long-term success. Despite this, the survey tells us that more than a third of companies have yet to develop a net zero strategy, and three in ten still have no plan to change. Most pure play oil and gas exploration and production companies are addressing their own carbon footprint. But for those without a blueprint for transition, and where external stakeholders are increasingly looking for substantive transition plans, the clock is ticking.

Keeping both eyes firmly on the future and the goal of net zero – underpinned by strong ESG actions - will allow those operating across the UKCS to prosper as major players on the global stage and continue the region's long tradition as an energy powerhouse in the UK and beyond.

KPMG

Martin Findlay
Office Senior Partner
KPMG UK in Aberdeen

ETZ Ltd is proud to partner with KPMG once again in support of the ET36 survey, the publication of which comes at a crucial juncture in the North East of Scotland's transformation to capitalise on the opportunities that energy transition provides.

The ongoing crisis in Ukraine and unprecedent cost crisis has precipitated significant debate around the structural weaknesses in our economy and how to address them. As a result, our policymakers are now firmly focussed on achieving greater energy security and supply for the long term as one of the solutions to this volatility.

Clearly, this is a long term and systemic problem that cannot be solved overnight, but it should be a source of reassurance that, across the North-east of Scotland, our energy industry is alive to the challenge and work is well underway to achieve an accelerated transition to new energies. Crucially, we must recognise the importance of supporting our world-class oil and gas sector and its critical mass of skills, infrastructure and financial capital as key driver of energy transition.

The results of this survey reflect this very context and sentiment, highlighting a range of positive emerging trends that provide cause for optimism as we continue on this journey. The vast majority of respondents recognise that embedding energy credentials to their business model is critical to their long term success and most companies are actively continuing to diversify toward new energies.

However, there are a number of challenges identified within the results that must be overcome as part of this process and it is notable that many companies view the political and regulatory environment as the biggest barrier to effective transition. Whilst the Scottish and UK Governments have set out a wide range of welcome measures designed to support accelerated diversification toward new energies, there is still some uncertainty as to how this support can be accessed. So, this report is valuable in highlighting our policymaker's need for greater clarity of vision and purpose in this regard.

In particular, it has been very clear for some time that it makes no sense to reduce our domestic oil and gas production only to increase carbon heavy imports from overseas, particularly given the UK is second only to Norway in terms of its efforts to decarbonise the sector. This would be entirely counterproductive, both environmentally and economically, so we must not create an adverse investment environment as we work toward meeting net zero targets.

Very much linked to this is the clear challenge identified in anticipated skills shortages expected across the energy sector and this must be met head on by industry, government, our universities and college.

This survey highlights that the delivery of energy transition will require investment in strategic infrastructure, technology innovation, supply chain development and skills – and that's exactly what ETZ Ltd has been set up to do. Our experienced team will utilise long-established connections across the globe, share knowledge and expertise, and create an incubation and collaboration space that delivers the skills that ensure long-term sustainable employment. We do so whilst seeking to secure a managed and just transition that protects and secures sustainable jobs whilst supporting local communities.

ETZ Ltd is already making significant progress on all of these priorities, and throughout our first year in operation, we have engaged with over 300 organisations across both the private and public sectors and supported the delivery of 12 programmes benefitting almost 500 individuals.

The key focus of the company's activity is the development of a unique Energy Transition Zone adjacent to the new £400 million Aberdeen South Harbour. This is the focal point of the cluster and will attract new investment and high value employment opportunities through its bespoke campus model.

Working with our partners at ORE-Catapult, we have created the world's first offshore wind innovation centre within the Altens Industrial Estate, which will act as an anchor to the Zone's proposed Offshore Wind Campus. We have also gained support through the Scottish Government's Just Transition Fund to establish Scotland's first purpose built Advanced Manufacturing Skills Hub, forming the focal point of the Skills Campus alongside NESCol's Altens site. This will provide a new Technologies Demonstration & Teaching Facility, Welding & Fabrication Academy, and a community net zero learning hub. We are finalising plans to build a brand-new Energy Incubator and Scale Up, which will act as an entry point for new and growing supply chain organisations, providing flexible accommodation and a wide range of growth support. It will be an innovation and entrepreneurial environment where ideas and partnerships are formed to create and develop ideas and bring these to market.

As an industry, we should have confidence in our ability to succeed in realising the ambition to reposition this region as the Net Zero Capital of Europe. However, we are under no illusions about the scale of the task and the hard work before us. This survey is a valuable reminder of the opportunities and risks we must navigate, but it is encouraging that the energy sector across this region is positive about the prospects for the future, both domestically and internationally.

And so they should be.

ETZ
ENERGY TRANSITION ZONE

Maggie McGinlay
Chief Executive
Energy Transition Zone

Key conclusions

1. Sector trends and outlook

The sector overall remains buoyant, with a positive outlook about the future in UKCS and internationally. Some evidence, however, of a growth plateau.

2. Sector diversification

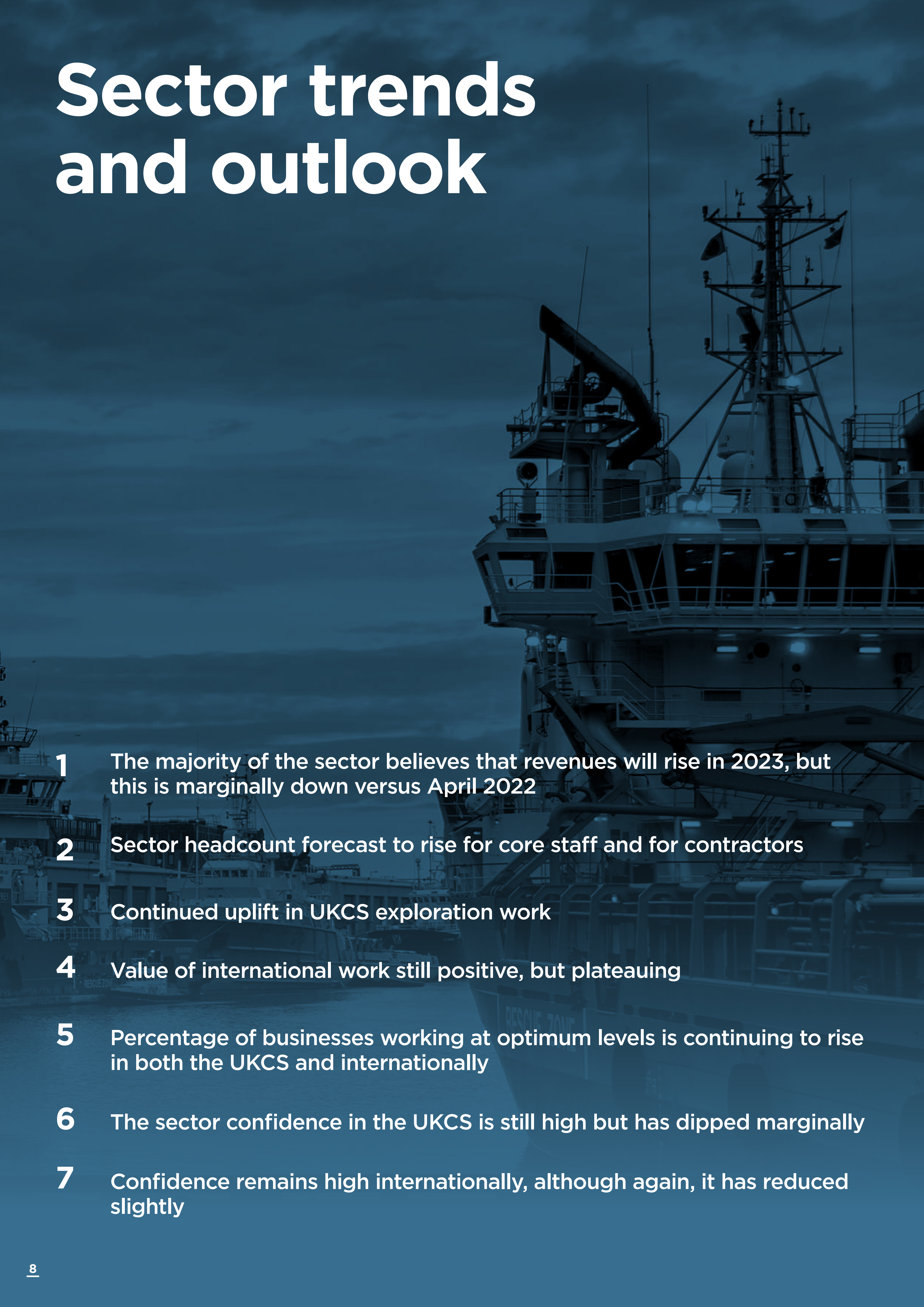
The majority of the sector is continuing to actively transition outwith oil and gas. Companies have a range of key concerns/barriers to overcome to achieve this successfully; political/regulatory environment and skills in particular. A minority in the sector are not actively transitioning.

3. Targets and government support

The vast majority of the sector believes that strong energy transition credentials are critical to their long-term success and most have committed to targets/have an ESG strategy in place. UK/Scottish Government initiatives are seen to be boosting confidence but still only a minority think that government support is visible and accessible to their business. There are still only cautious levels of optimism about the Aberdeen region and Scotland/UK leading the way as a globally significant renewable energy hub.

4. Recruitment and skills gaps

Skills shortages, in both oil and gas and new energy technologies, stand out as a key issue for the sector and are a barrier to growth. The sector is continuing to lose more people than usual, with a large proportion leaving the sector altogether.

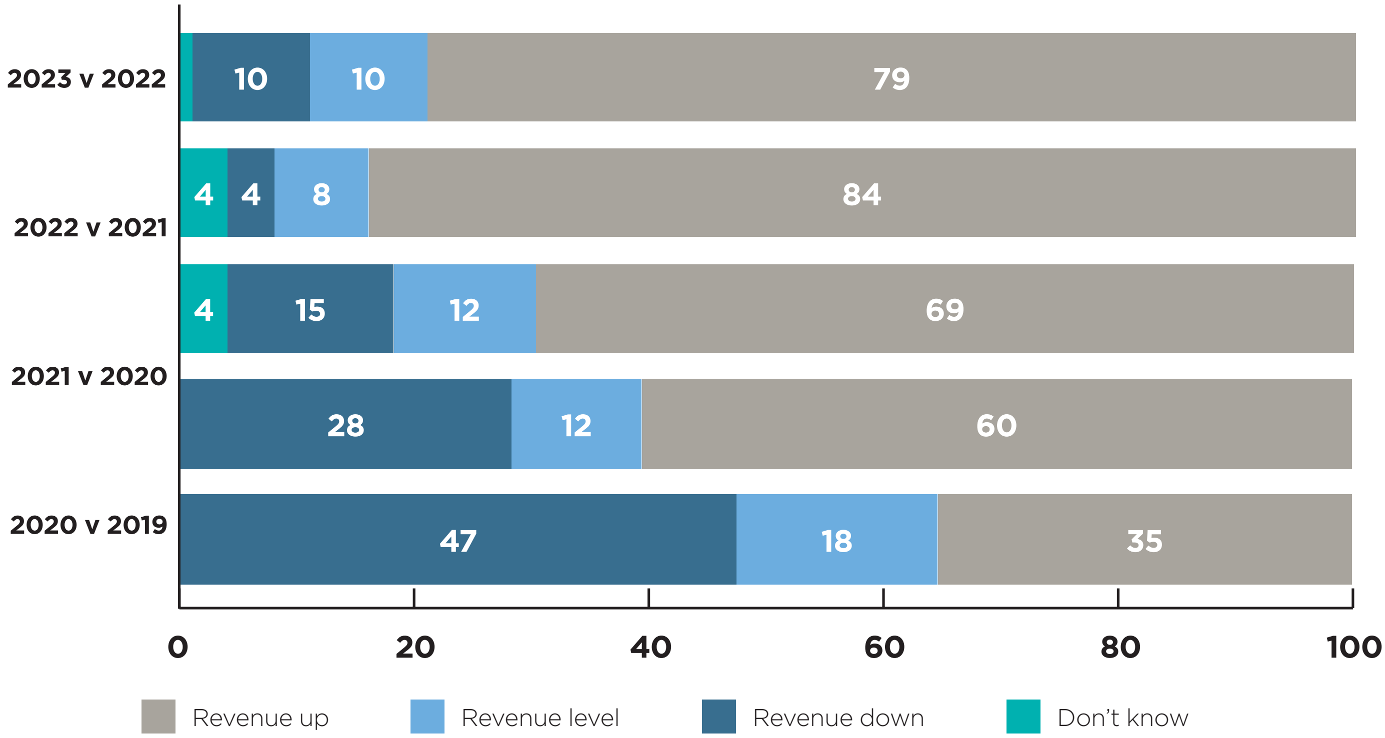


Sector trends and outlook

1. The majority of the sector believes that revenues will rise in 2023, but this is marginally down versus April 2022
2. Sector headcount forecast to rise for core staff and for contractors
3. Continued uplift in UKCS exploration work
4. Value of international work still positive, but plateauing
5. Percentage of businesses working at optimum levels is continuing to rise in both the UKCS and internationally
6. The sector confidence in the UKCS is still high but has dipped marginally
7. Confidence remains high internationally, although again, it has reduced slightly

1. Sector believes that revenues will rise in 2023, continuing the upward trend

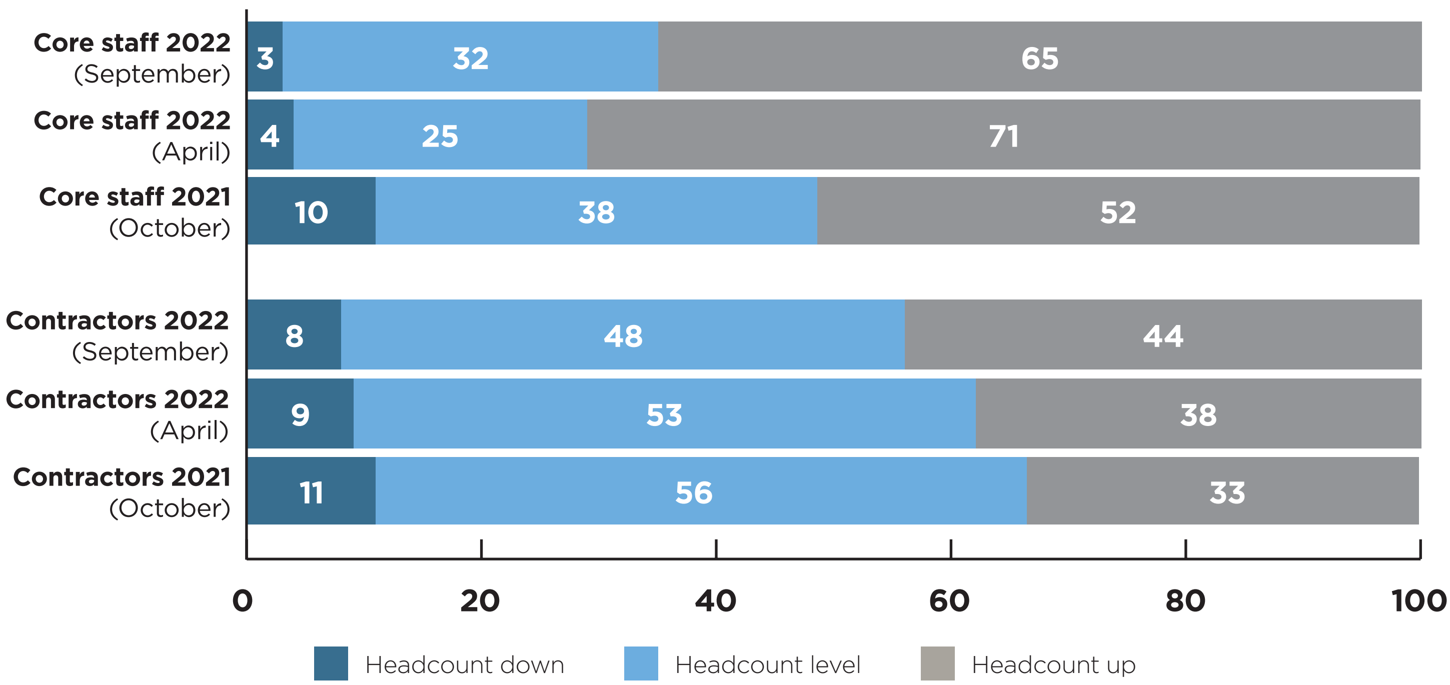
Q: To what extent do you expect your organisation's revenue to change in 2023, compared to 2022:



% sector view of revenue change v previous years

2. Sector headcount forecast to rise for contractors and core staff but for the latter, less so than versus April 2022

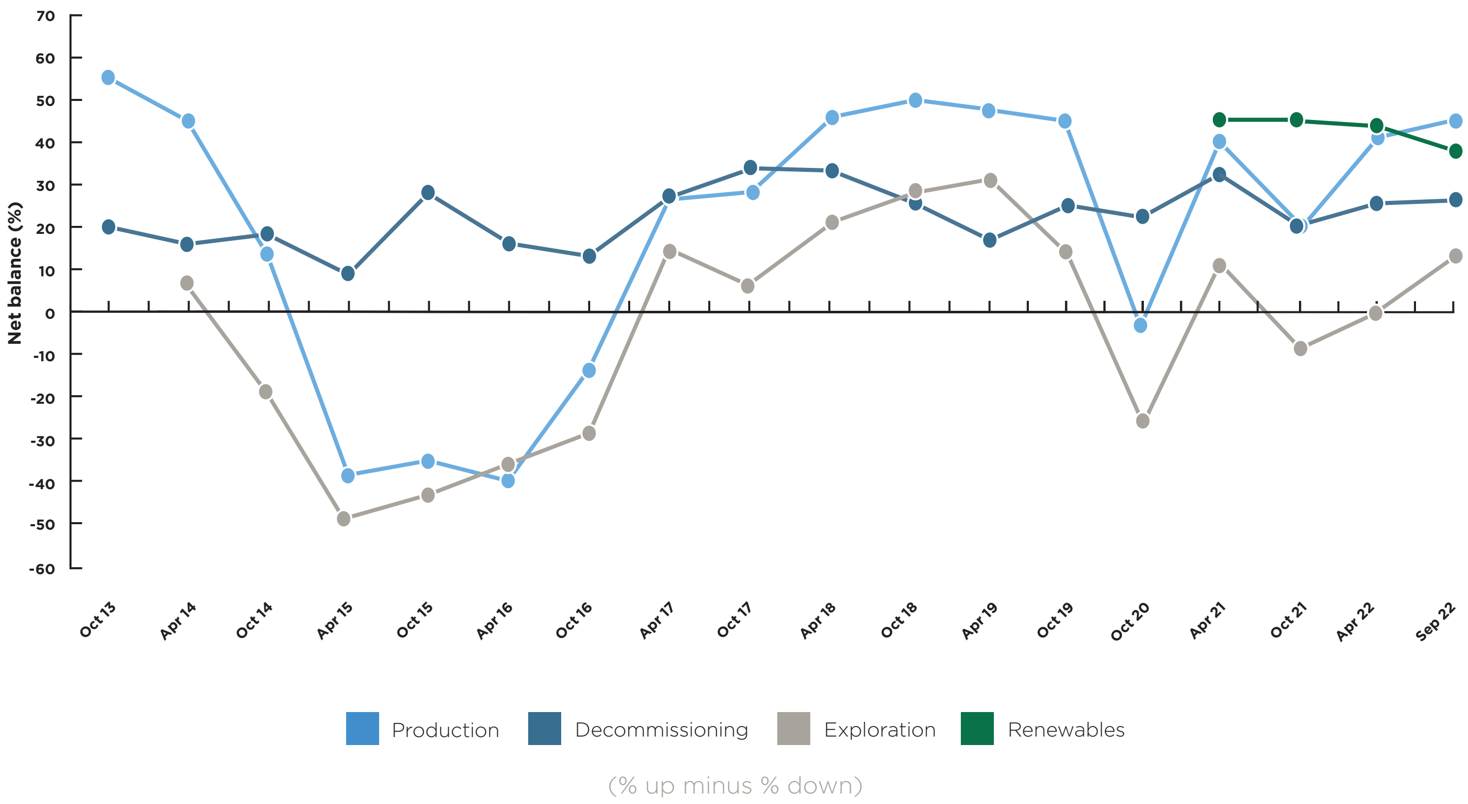
Q: How do you expect your headcount to change over the next three years for....



% sector view of revenue change v previous years

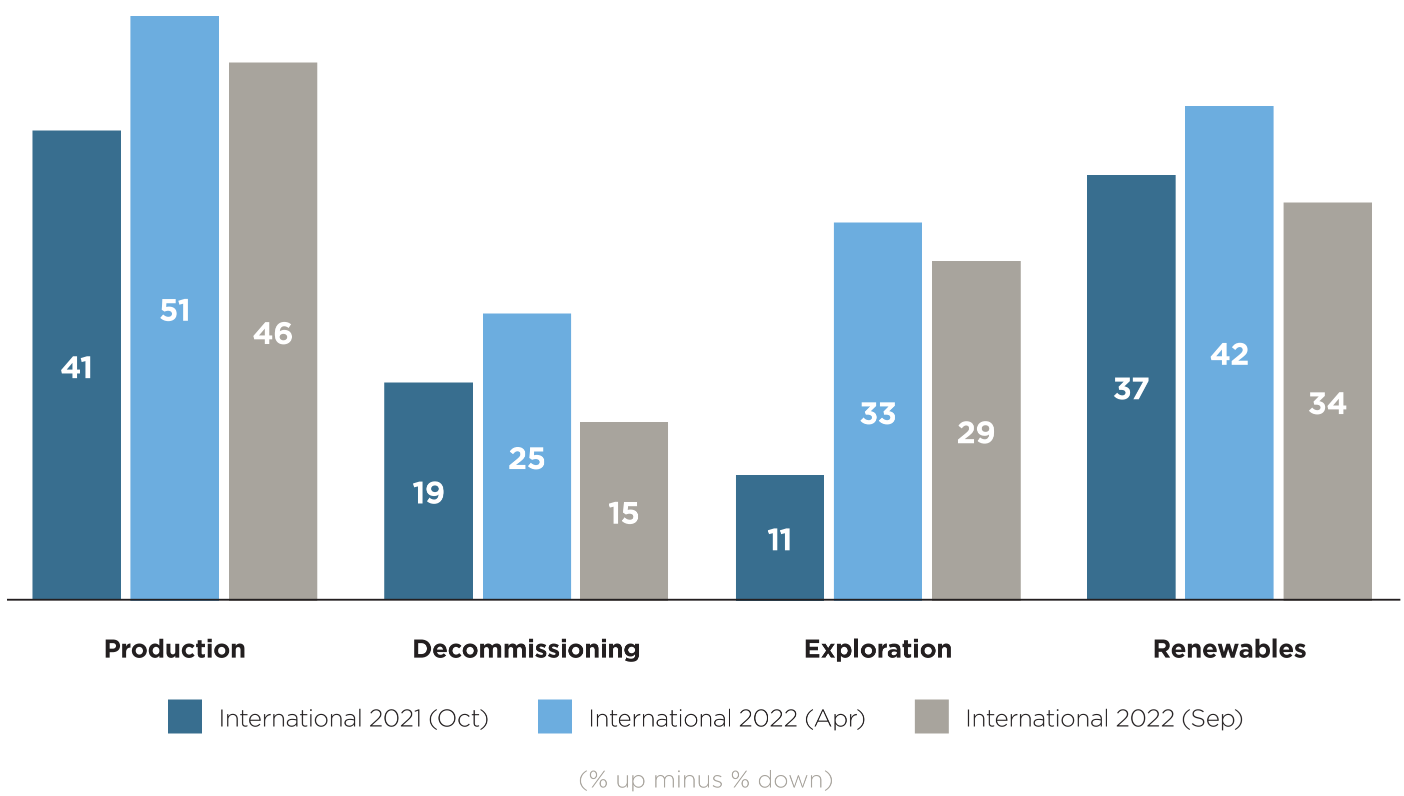
3. Continued uplift in UKCS exploration work

Q: Excluding seasonal factors, what are the trends in the total value of your organisation's work in the UKCS of:



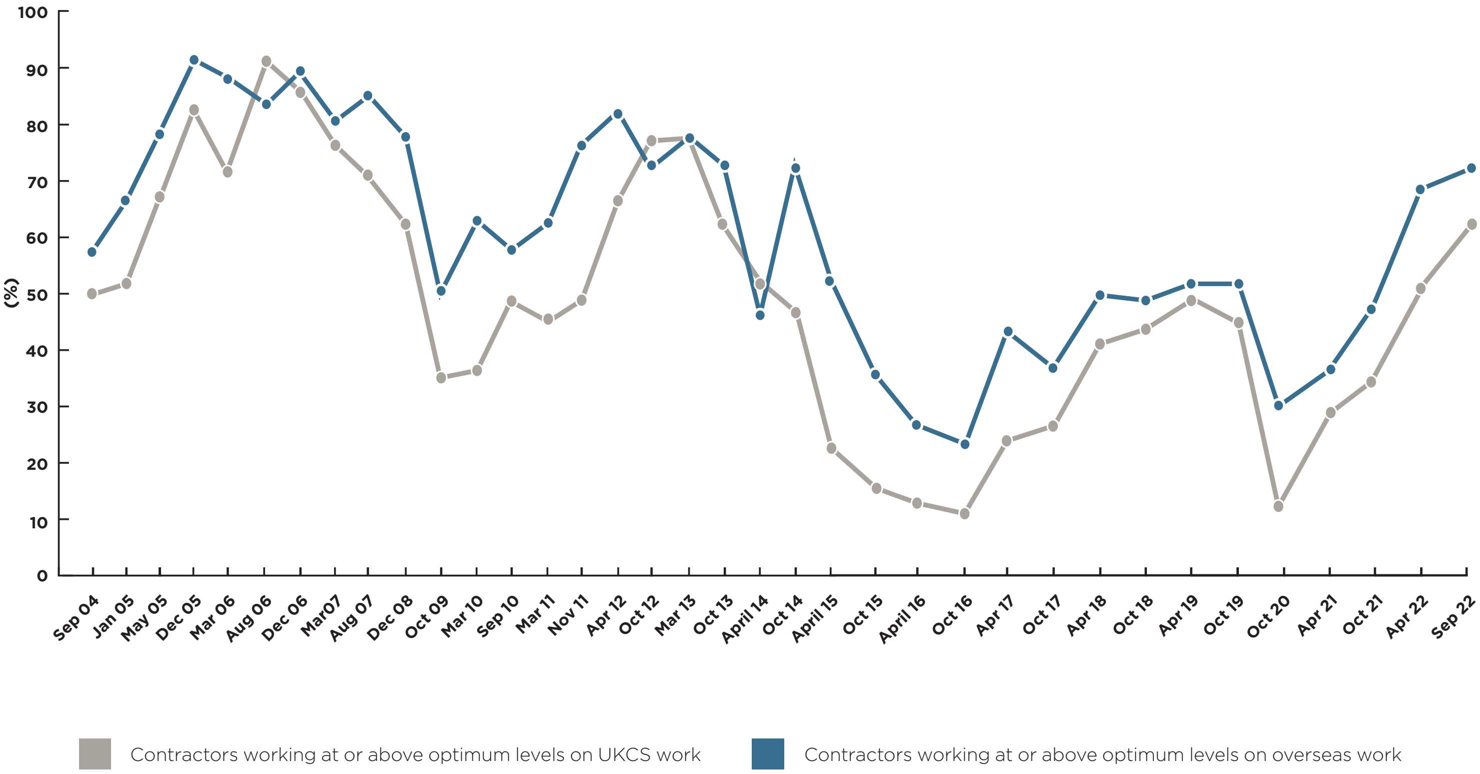
4. Value of international work still positive, but plateauing

Q: Excluding seasonal factors, what are the trends in the total value of your organisation's work in international:



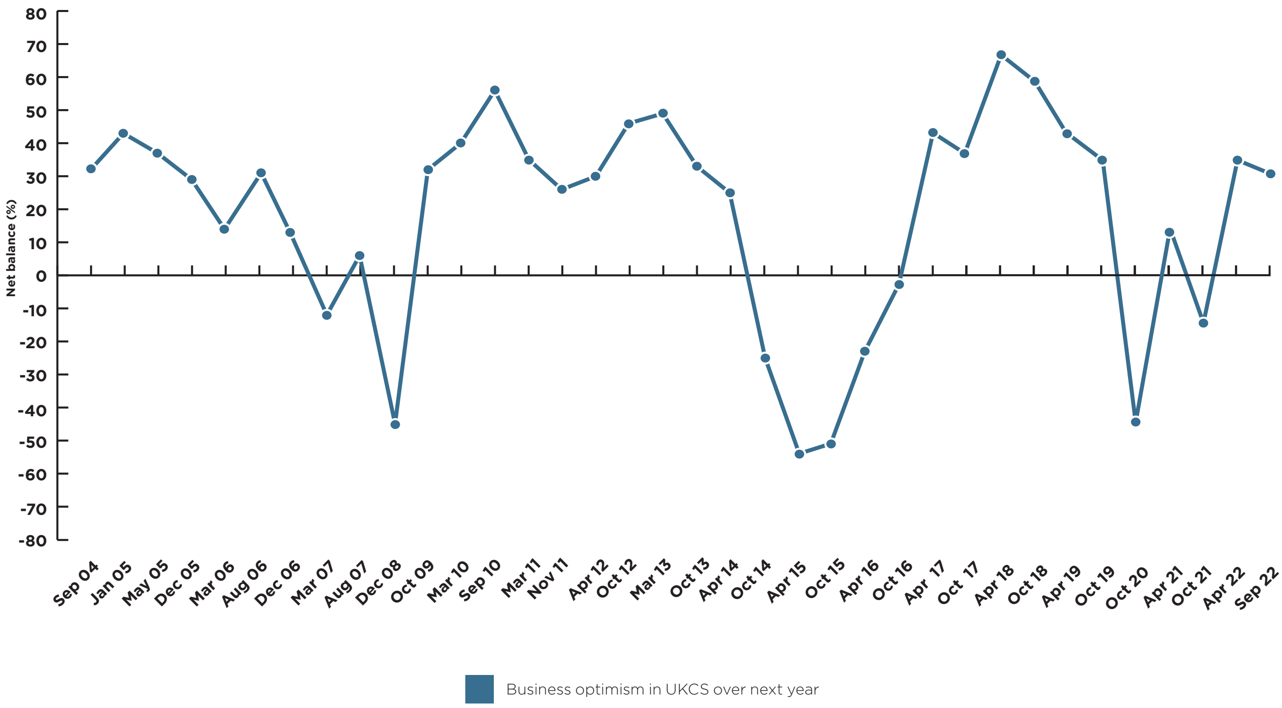
5. Percentage of businesses working at or above optimum levels is continuing to rise in both the UKCS and internationally

Q: Is the level of UKCS-based work leading to you work above or below optimum levels in the UKCS?



6. The sector confidence in the UKCS is still high but has dipped marginally

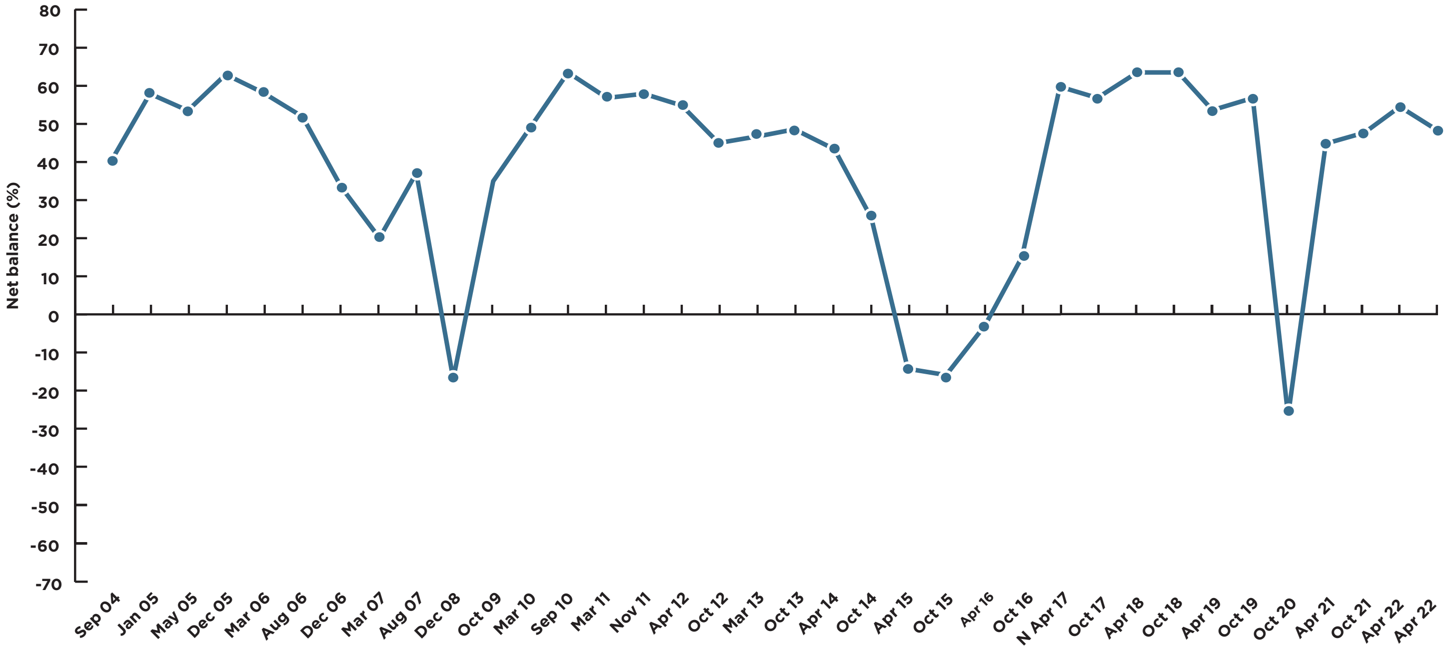
Q: How confident are you about the business situation in the UKCS oil and gas sector over the next year?



(% more confident minus % less)

7. Confidence remains high internationally, although again, it has reduced slightly

Q: How confident are you about the business situation in the oil and gas sector elsewhere over the next year?



(% more confident minus % less)

Sector diversification

8 Still strong expectation of significant transformation by 2030

9 Businesses planning to be involved across a range of activities in the medium term, led by offshore wind

10 Most sector businesses are continuing to diversify outwith oil and gas

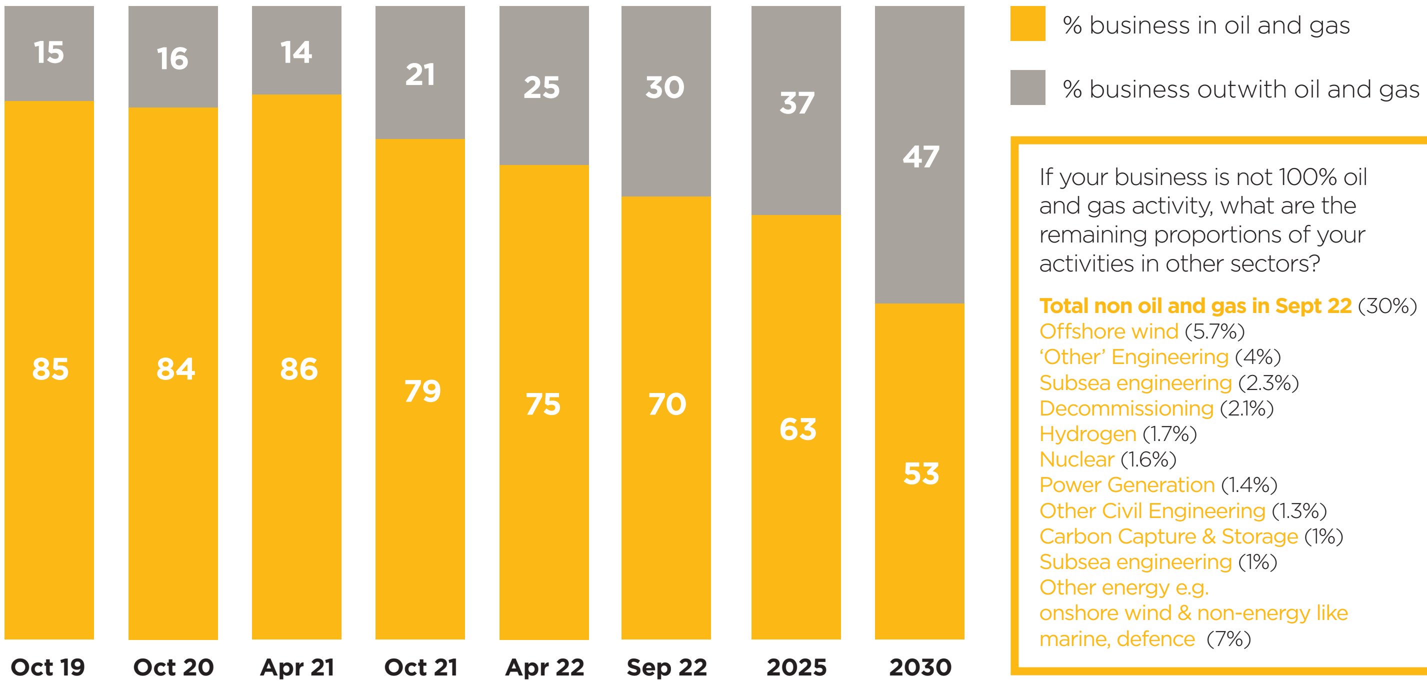
11 Range of factors key in level of UKCS activity in the next year, commodity price/level of demand/energy security and skills in particular

12 Oil price stability and energy transition still key long-term concerns

13 Political/regulatory environment still the number one barrier/challenge to diversification

8. Still strong expectation of significant transformation by 2030

Q: What percentage of your business is in oil and gas activities? What percentage of your business do you expect to be within oil and gas activities by 2025? By 2030?



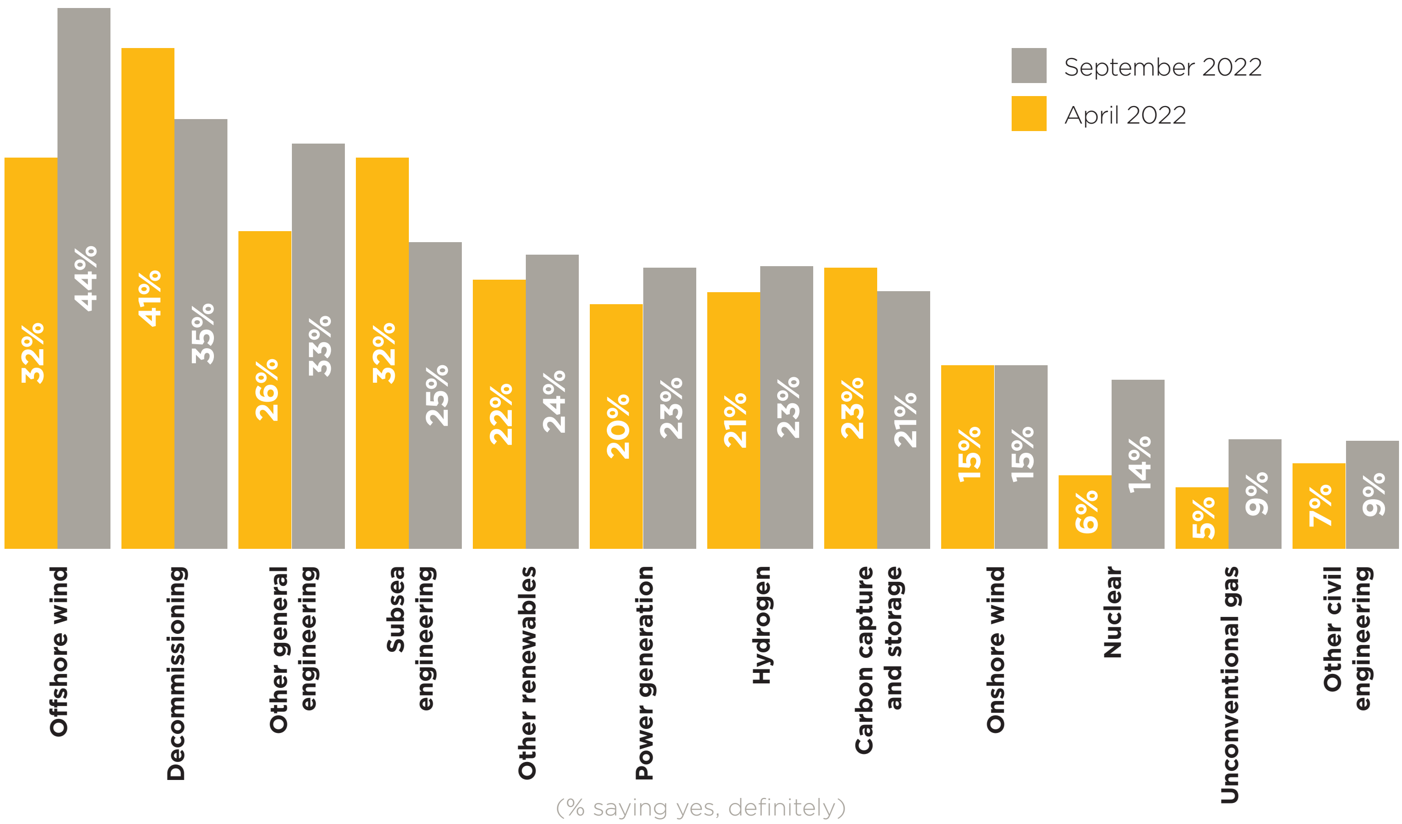
If your business is not 100% oil and gas activity, what are the remaining proportions of your activities in other sectors?

Total non oil and gas in Sept 22 (30%)
Offshore wind (5.7%)
'Other' Engineering (4%)
Subsea engineering (2.3%)
Decommissioning (2.1%)
Hydrogen (1.7%)
Nuclear (1.6%)
Power Generation (1.4%)
Other Civil Engineering (1.3%)
Carbon Capture & Storage (1%)
Subsea engineering (1%)
Other energy e.g. onshore wind & non-energy like marine, defence (7%)

Note: 2025 and 2030 data drawn from, the September 2022 survey.

9. Businesses planning to be involved across a range of sectors in the medium term, led by offshore wind

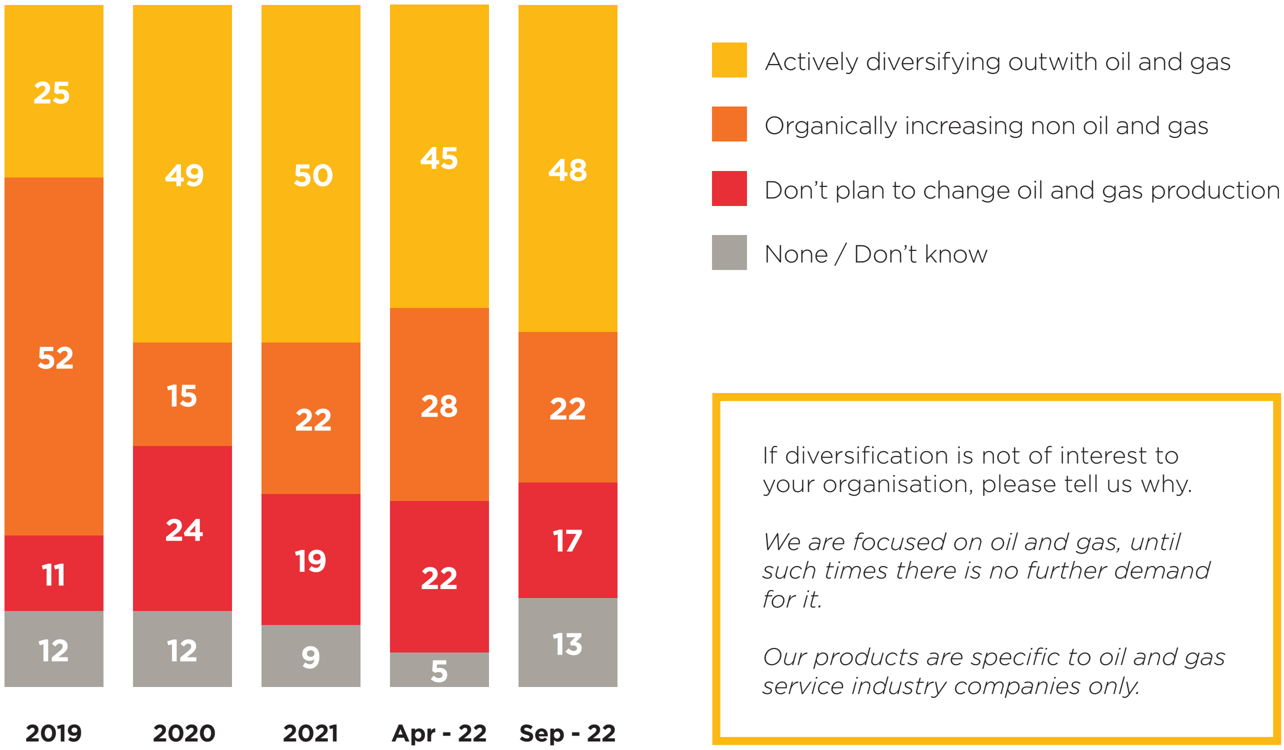
Q: Looking to the medium term (three to five years) do you think your organisation will be more involved in



(% saying yes, definitely)

10. Most sector businesses are continuing to diversify outwith oil and gas

Q: Which of the following best describes your business' strategy and approach to energy transition?



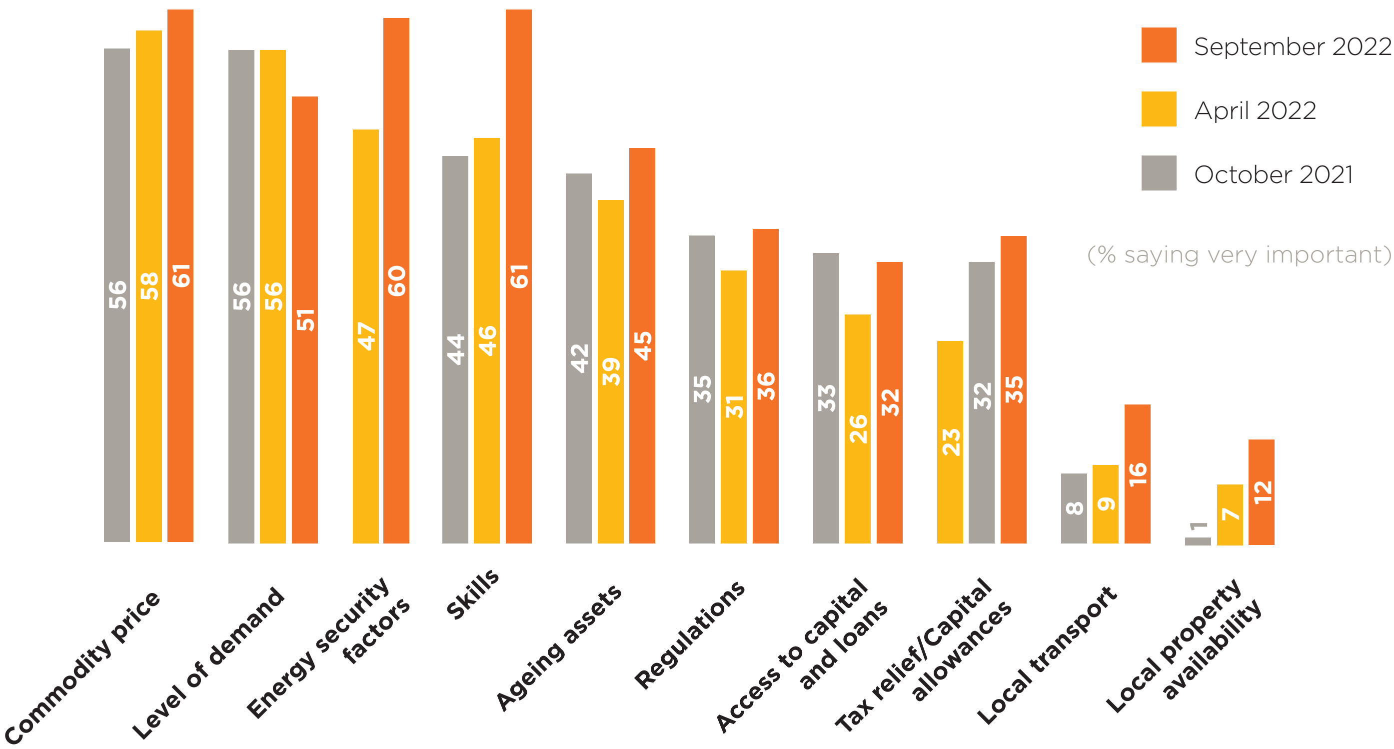
If diversification is not of interest to your organisation, please tell us why.

We are focused on oil and gas, until such times there is no further demand for it.

Our products are specific to oil and gas service industry companies only.

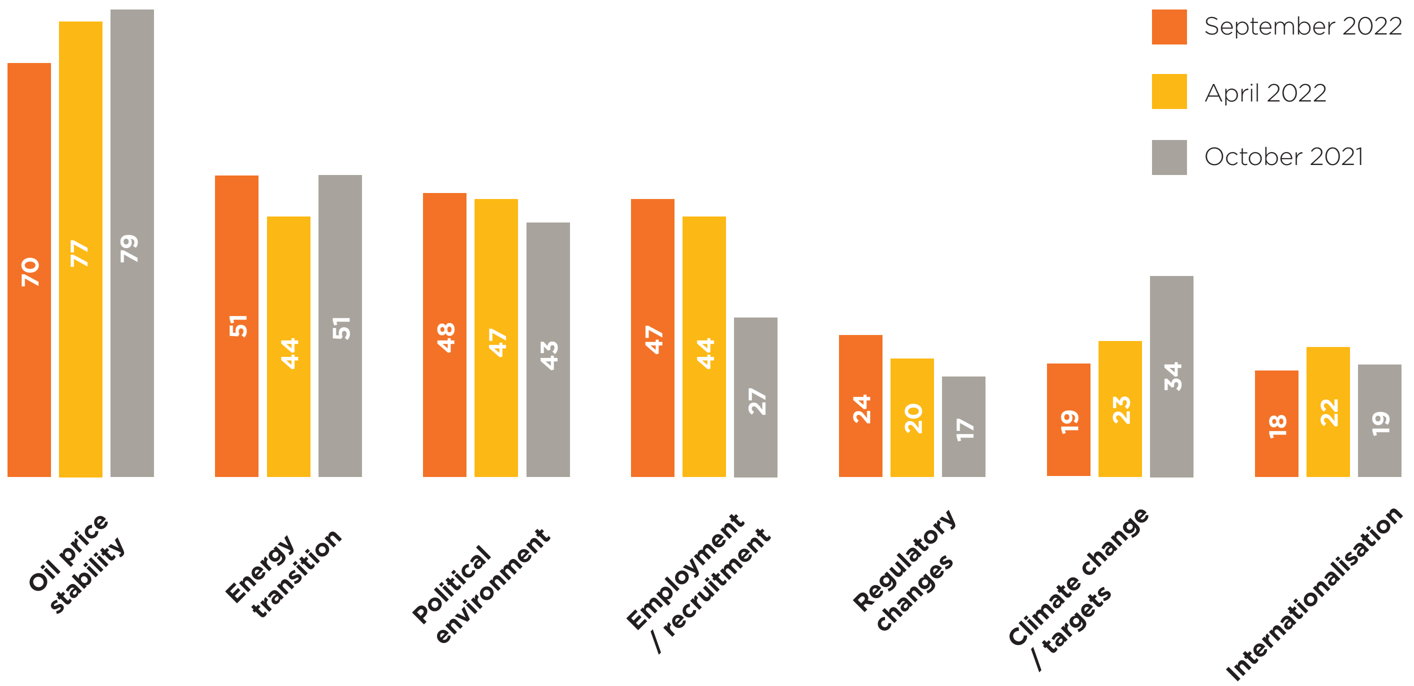
11. Range of factors key in level of UKCS activity in the next year, commodity price/level of demand/energy security and skills in particular

Q: UKCS; How important are the following factors in the level of activity over the next year?



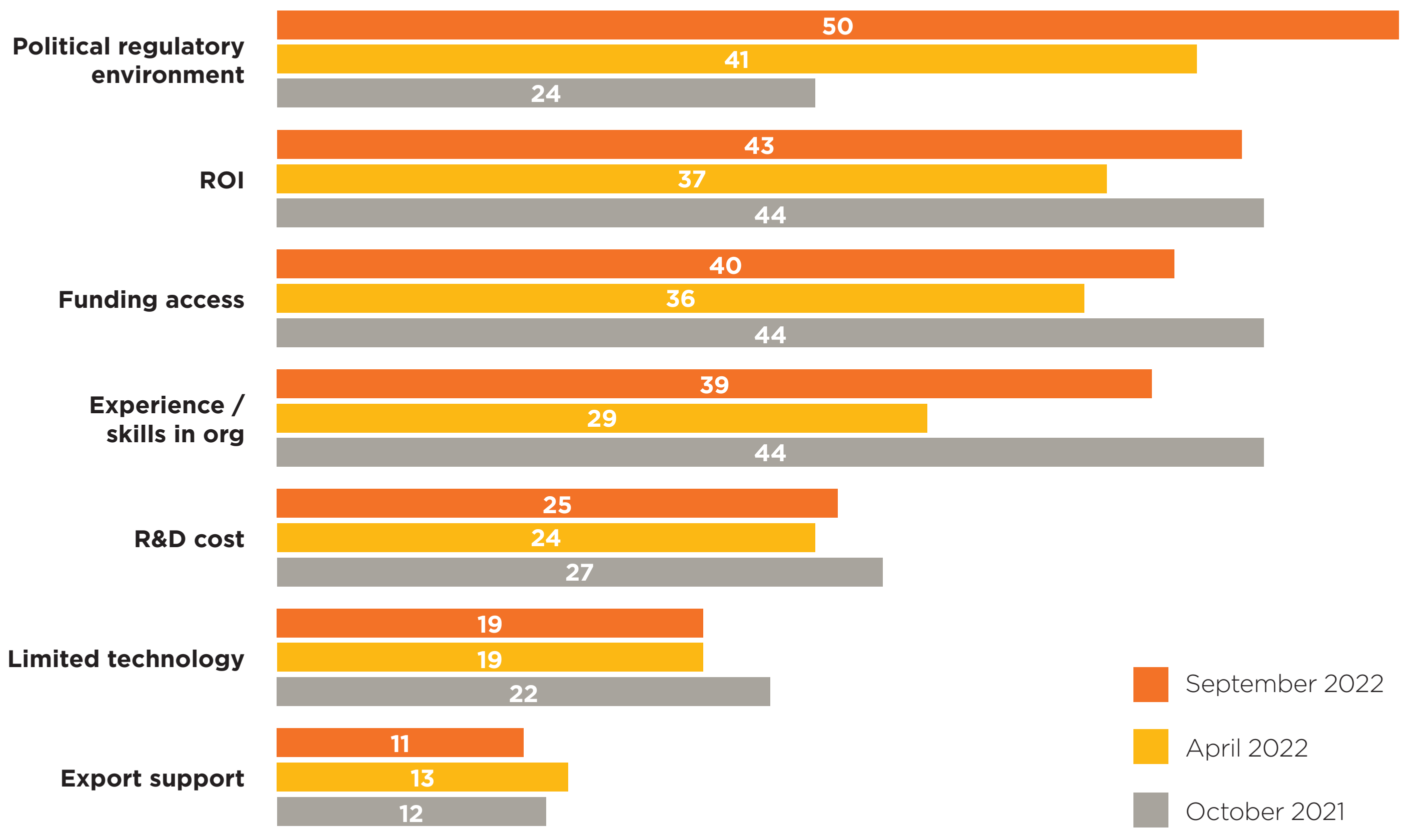
12. Oil price stability and energy transition still key long-term concerns

Q: What are the top three concerns for your organisation's long-term future (i.e. next 10 years)?



13. Political and regulatory environment now the number one barrier/challenge to diversification

Q: Which of the following, if any, would you consider as barriers/challenges to diversification into other forms of energy?



Bilfinger case study

Tell us a little bit about your business?

Bilfinger UK Limited is a leading engineering and maintenance provider, supporting customers across the oil and gas, renewables, power and energy, pharmaceuticals and biopharma, utilities, chemical and petrochemical, nuclear and food and beverage markets. Our Energy Transition journey stems from our traditional energy roots where we have over 45 years of experience delivering inspection, fabric maintenance and access solutions to our customers in the North Sea. Building on our strong reputation for excellent service and multi-disciplined teams operating in harsh environments transitioning to provide a comprehensive range of wind services was a logical step as here too we can enhance efficiencies, reduce maintenance costs, and be the reliable integrated service partner of choice.

Can you tell us about the transition journey your business has been on?

In order to enhance our green credentials Bilfinger has collaborated with Netherlands-based Amphibious Energy to provide renewable energy (wind and solar) generator units capable of saving 50 tonnes of CO2e per year for operators in the offshore oil, gas and wind markets. An EnergyPod powered Ithaca's Jacky installation prior to decommissioning in 2021 and Bilfinger have exclusive rights in the UK and a number of European countries to install, commission, maintain, decommission and remove. These green alternatives to diesel generators can support auxiliary power requirements during wind farm construction and commissioning, and outages where turbines are unable to run but require power for their systems to remain operational. Each unit provides a saving of up to 50 tonnes of CO_2 per year. They feature a patented nautilus wind turbine and solar panels, with a battery storage unit ensuring autonomy for up to 240 hours.

As one of the first providers offering a Tier1 Operations and Maintenance solution for the UKs expanding offshore wind market (through the careful selection of collaboration partners who provide services and technologies that complement our core business), we are able to offer a complete solution to wind farm owners via one framework contract. This combined offering reaches from blade tip to onshore substation and everything in between including blade inspection and repair; rotating component overhaul through to foundation and transition piece NDT and remediation as well as array and export cable monitoring. This managed solution is attractive to wind farm owners as it reduces the number of interfaces and contracts they hold as well as providing efficiencies of working through strategic planning delivered by highly and multi-skilled GWO trained technicians.

Bilfinger is committed to expanding and refining our service lines over time in order to increase our experience and technical knowledge and broaden our reach. We continue to embrace new commercial models, O&M strategies and ways of working. We have found this to be an educational process for both sides that is proving to be extremely rewarding and satisfying.

What advice would you give to businesses embarking on a similar transition journey?

"Making the switch from oil and gas services into renewables is not something that is quick or easy. It is a diverse market sector with completely different customers, standards and expectations. You need to invest significant time in understanding the market and the demands of this sector. This takes investment over many years as opposed to a prompt transfer of strategy and direction. Allocate your best people (engineers and management team) to embark on that clean energy transition journey and carefully listen to the customers and asset owners to understand what the market specifically needs and how best to service that market." Sandy Bonner, Executive President, Bilfinger UK.

Targets and government support

14 The vast majority of the sector believes that energy transition credentials are critical to their long-term success

15 64% of the sector has committed to carbon neutral targets, but many firms still without a deadline

16 Of the businesses that have developed a strategy to reduce their carbon footprint, 51% feel that it is largely on track, up 11pp vs. April

17 Of the businesses that have developed a strategy to reduce their carbon footprint, less than half have accelerated their net zero plans in the last year, measuring progress through a range of tools

18 Nearly all businesses see Aberdeen and the North-east playing a very important role in providing UK energy security

19 Most business considering physical and transitional climate change risks, at least to some extent

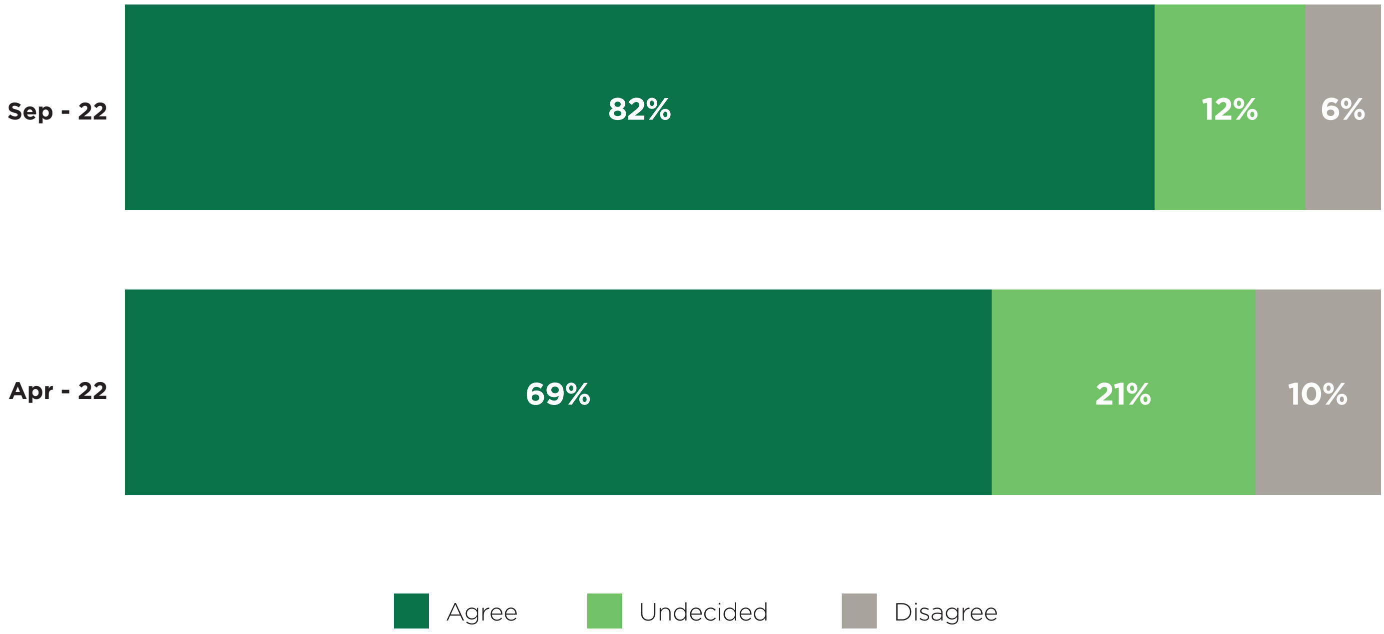
20 About half of businesses have an ESG strategy in place already

21 Over half of businesses now believe the NSTD has had a positive impact on confidence and over a third believe the JTF has had a positive impact. Only a minority agree that this government support is visible and accessible to their business

22 There are still only cautious levels of optimism about the Aberdeen region and Scotland/UK leading the way as a globally significant renewable energy hub

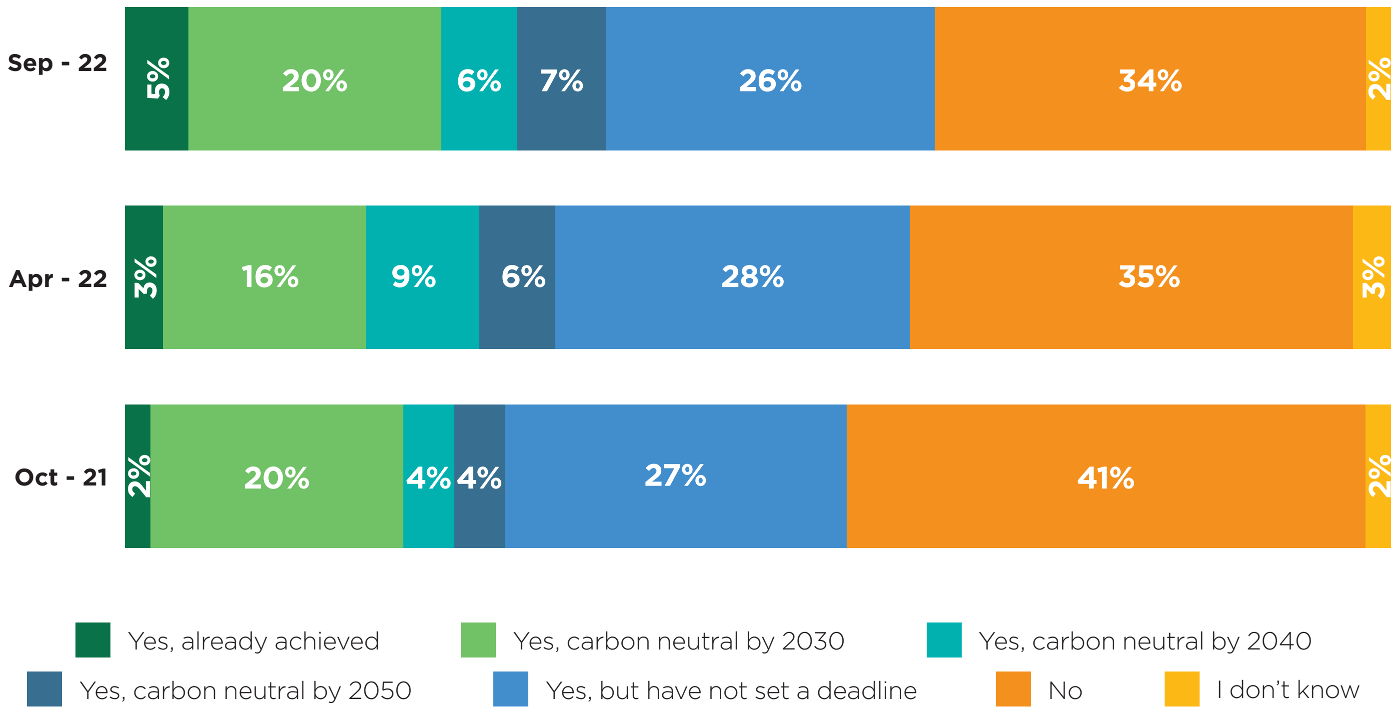
14. Vast majority of the sector believe that energy transition credentials are critical to their long-term success; higher than in April

Q: To what extent would you agree that energy transition credentials are critical to your long-term success?



15. 64% of the sector have committed to carbon neutral targets, but many still without a deadline

Q: Has your business developed a specific net zero strategy or a strategy to reduce your carbon footprint?



16. Of the businesses who have developed a strategy to reduce their carbon footprint, 51% feel that it is largely on track, up 11pp vs. April

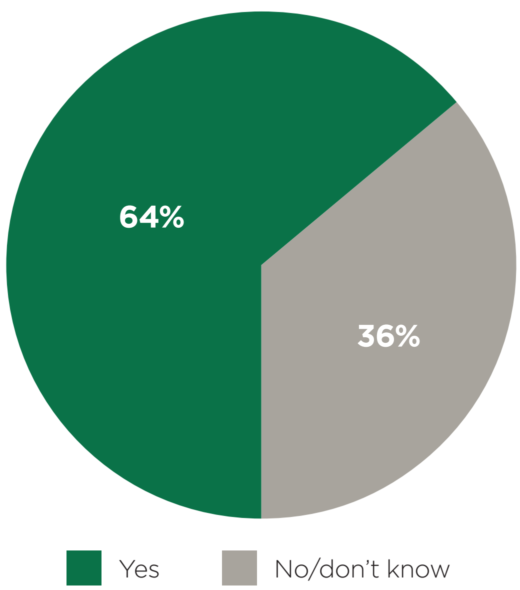
Q: Do you feel that your business is on track with your net zero strategy/strategy to reduce your carbon footprint? Based on the 64% of businesses who have a net zero strategy

Why do you say that?

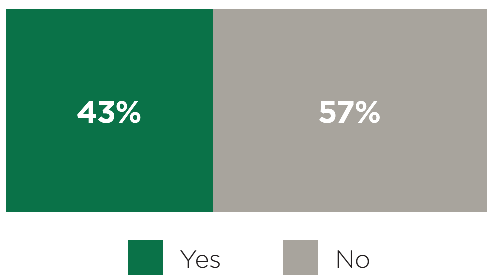
- Because we have set ourselves progressive annual targets aimed at meeting our 2030 goal
- Our business strategy, growth and execution all take net zero requirements into account
- Planning to plant 1500 trees

17. Of the businesses who have developed a strategy to reduce their carbon footprint, less than half have accelerated their net zero plans in the last year, measuring progress through a range of tools.

Q: Has your business developed a specific net zero strategy or a strategy to reduce your carbon footprint?



Q: Have you accelerated your (net zero) plans in the last year?



How are you tracking progress?

Adopting a Carbon Offset Strategy

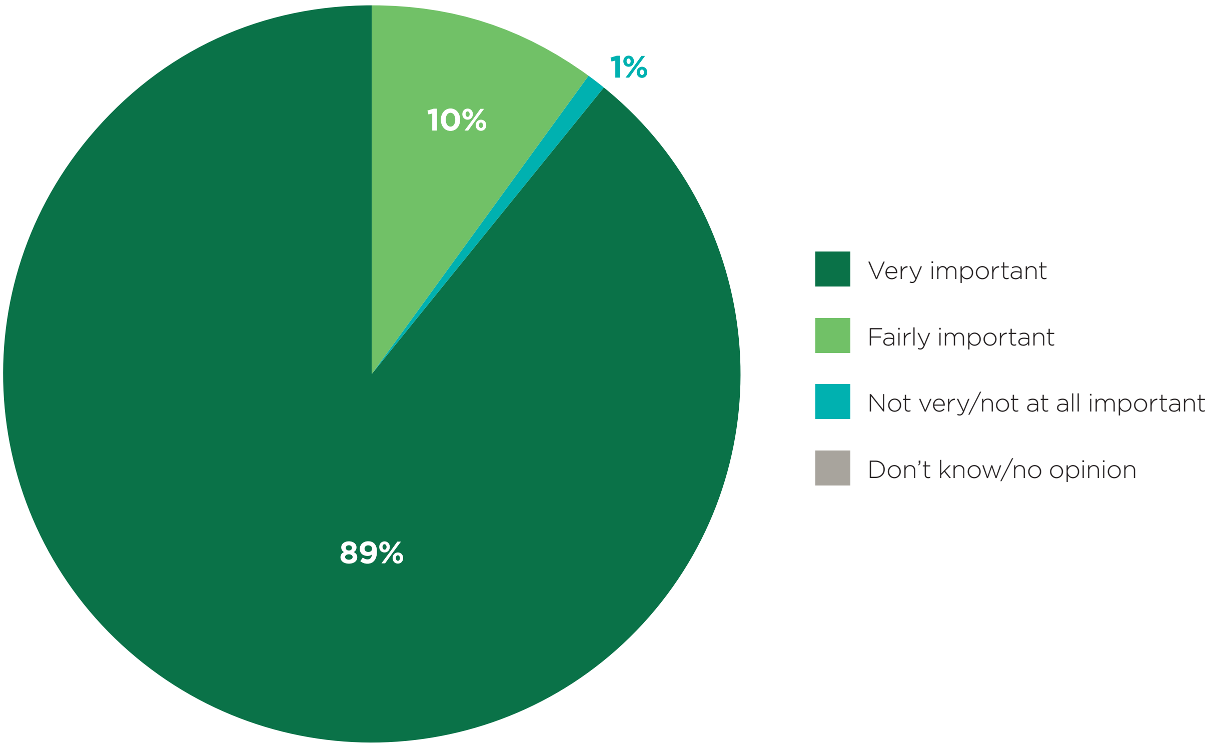
Engaging with a third party expert

Measuring via our KPI plan

Base: the 64% of businesses who have net zero plans

18. Nearly all businesses see Aberdeen and the North-east playing a very important role in providing UK energy security

Q: How important do you view the Aberdeen and the North-east energy sector's role in providing UK energy security?



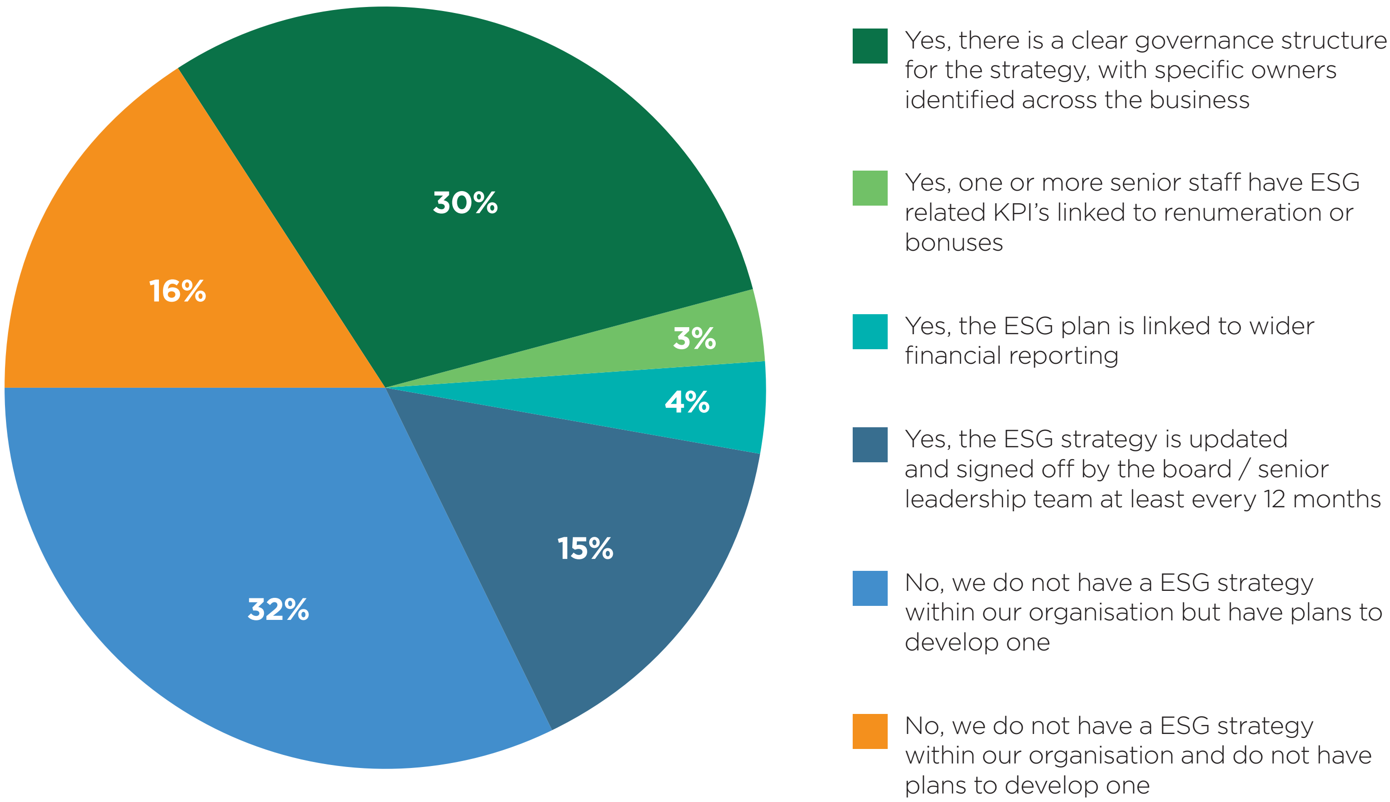
19. Most businesses considering physical and transitional climate change risks, at least to some extent

Q: Has your organisation considered the physical risks (e.g. weather events) and transitional risks (e.g. service offer changes due to low carbon policy) associated with climate change?

Scale, % replying for each score											
Not considering/ recognising these risks/not a priority for us currently	1	2	3	4	5	6	7	8	9	10	Are considering these risks actively/is a priority for us/strategy in place and being actively implemented
	15%	**8%**	**12%**	**7%**	**18%**	**12%**	**8%**	**13%**	**2%**	**5%**	
					Mean, Mode						

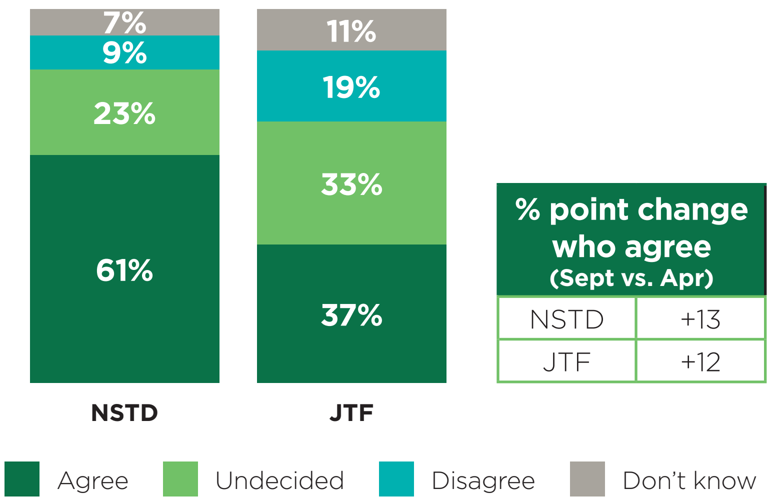
20. About half of businesses have an ESG strategy in place already

Q: Do you have an Environmental Social Governance (ESG) strategy within your organisation, that has board/senior leadership level support?



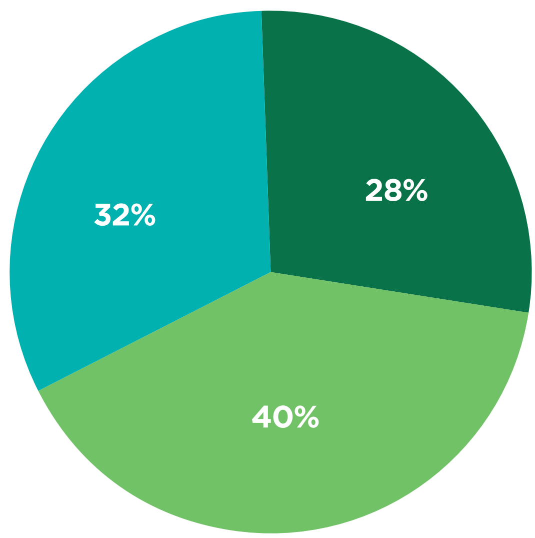
21. Over half of businesses now believe the NSTD has had a positive impact on confidence and over a third believe the JTF has had a positive impact. Only 28% agree that this government support is visible and accessible for their business

Q: To what extent do you agree that the following have a positive impact on industry confidence in the UKCS For "a) UK Government North Sea Transition Deal" For "b) Scottish Government Just Transition Fund"



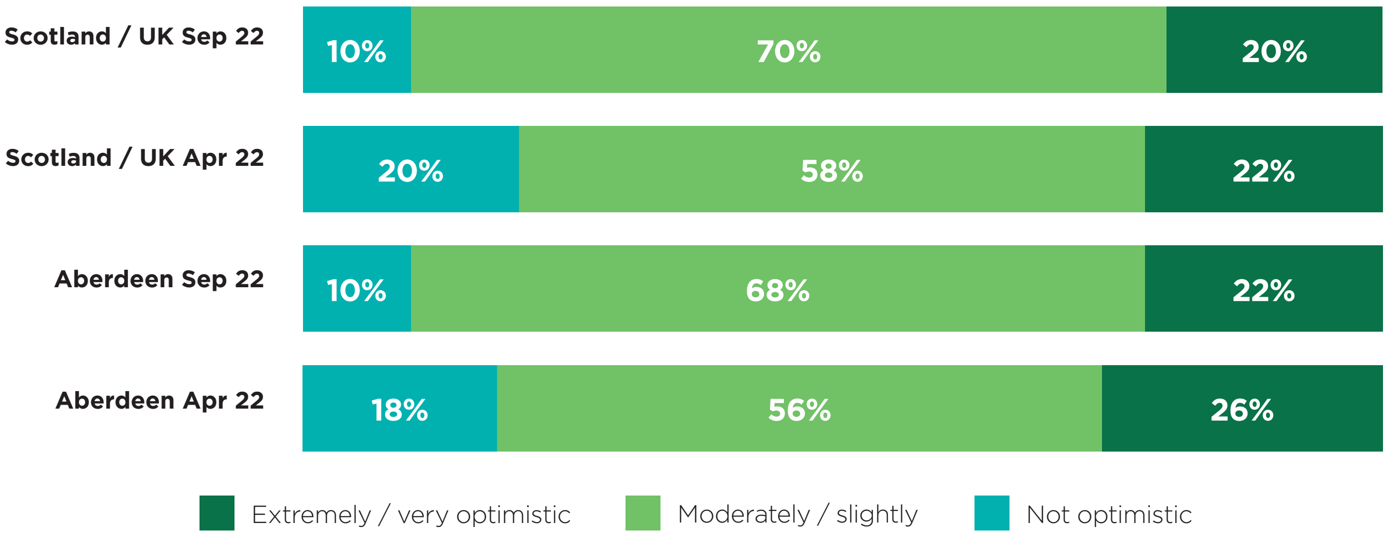
% point change who agree (Sept vs. Apr)	
NSTD	+13
JTF	+12

Q: To what extent do you agree that Government support to transition into new industries from oil and gas is visible and accessible for your business



22. There are still only cautious levels of optimism about the Aberdeen region and Scotland/UK leading the way as a globally significant renewable energy hub.

Q: How optimistic are you about the long-term future of a) Aberdeen and b) Scotland/UK as leading the way as an integrated globally recognised energy hub focused on the delivery of net zero?



Why do you say that, example comments...

- Aberdeen currently holds a lot of the technical expertise required to develop what is required
- Aberdeen will continue to be central to the energy industry for the foreseeable future as the skill sets needed are largely already available in the area
- There is no coherent plan in place as far as I can see

px case study

Tell us a little bit about your business?

px are a leading provider of services in the process, energy and high complexity industrial sectors, delivering change through energy transition. We are responsible for processing around 30% of the UK's gas supply and operate many of the UK's key strategic sites on behalf of our clients including gas terminals, power plants, renewables, and chemicals sites. We are headquartered in Stockton-on-Tees, with offices in Aberdeen and the Humber. We have over 25 years' experience in delivering end-to-end specialist services. We own the world-renowned Saltend Chemicals Park at the heart of the UK's Energy Estuary in the Humber, home to several world-leading manufacturing businesses such as Mitsubishi Chemicals, INEOS, and Vivergo Fuels. Our portfolio also includes the role of Duty Holder at one of the gas terminals at St Fergus and at the Teesside Gas Processing Plant. We are committed to the Energy and Industrial Transition, reducing emissions across all our operations, including the sites we manage and operate on behalf of our clients.

Can you tell us about the transition journey your business has been on?

Saltend Chemicals Park in Humberside sums up the px transition journey. Equinor are planning to build a 600 MW hydrogen plant here, with carbon capture, to convert natural gas to hydrogen, the anchor project of the Zero Carbon Humber consortium (of which we are a partner). The hydrogen plant will be coupled with new low carbon chemical production and will integrate into existing Saltend infrastructure, utility distribution networks and the existing industrial processes. It will enable industrial customers in the Park to fully switch over to blue hydrogen feedstock. As a result, emissions from Saltend Chemicals Park will reduce by nearly 1m tonnes of CO_2 per year in the initial phases and will increase over time.

Also at Saltend, Pensana plc is building the world's first Rare Earth Sustainable Magnet Metal Supply Chain vital for electric vehicle, wind turbine and other strategic Industries, with plans to be in production by 2024. The £150million investment will create 450 jobs during construction and 120 high value long-term jobs in the region.

We have also launched a new business, px Energy Solutions, which will partner with business customers to optimise their energy assets and decarbonise their activities. We are taking our experience in optimising and decarbonising large energy-intensive assets in the energy supply and manufacturing industries and using that to help the wider business community. This will help them reduce their carbon footprint, improve energy efficiency / reliability and thereby improve their business performance.

What advice would you give to businesses embarking on a similar transition journey?

Our advice would be to consider your business culture and vision. First, think about your culture. The transition sits at the heart of the px Group culture, what we are focussed on and how we present ourselves. Second, think about your vision. The px Group vision is to deliver net zero and stakeholder success through elite performance in the safety, availability, reliability and efficiency of energy infrastructure, industrial processes and related commercial activities, unlocking value for our customers as a trusted partner.

Recruitment and skills gaps

23 Continued significant increases in % of businesses experiencing difficulty in recruiting across the board

24 Dropping levels of confidence in securing oil and gas skills. Even lower levels of confidence in securing people with new energy technology skills

25 Sector believes it is increasingly losing more people than usual; mainly to other UKCS / oil and gas roles but also large proportion leaving the sector all together

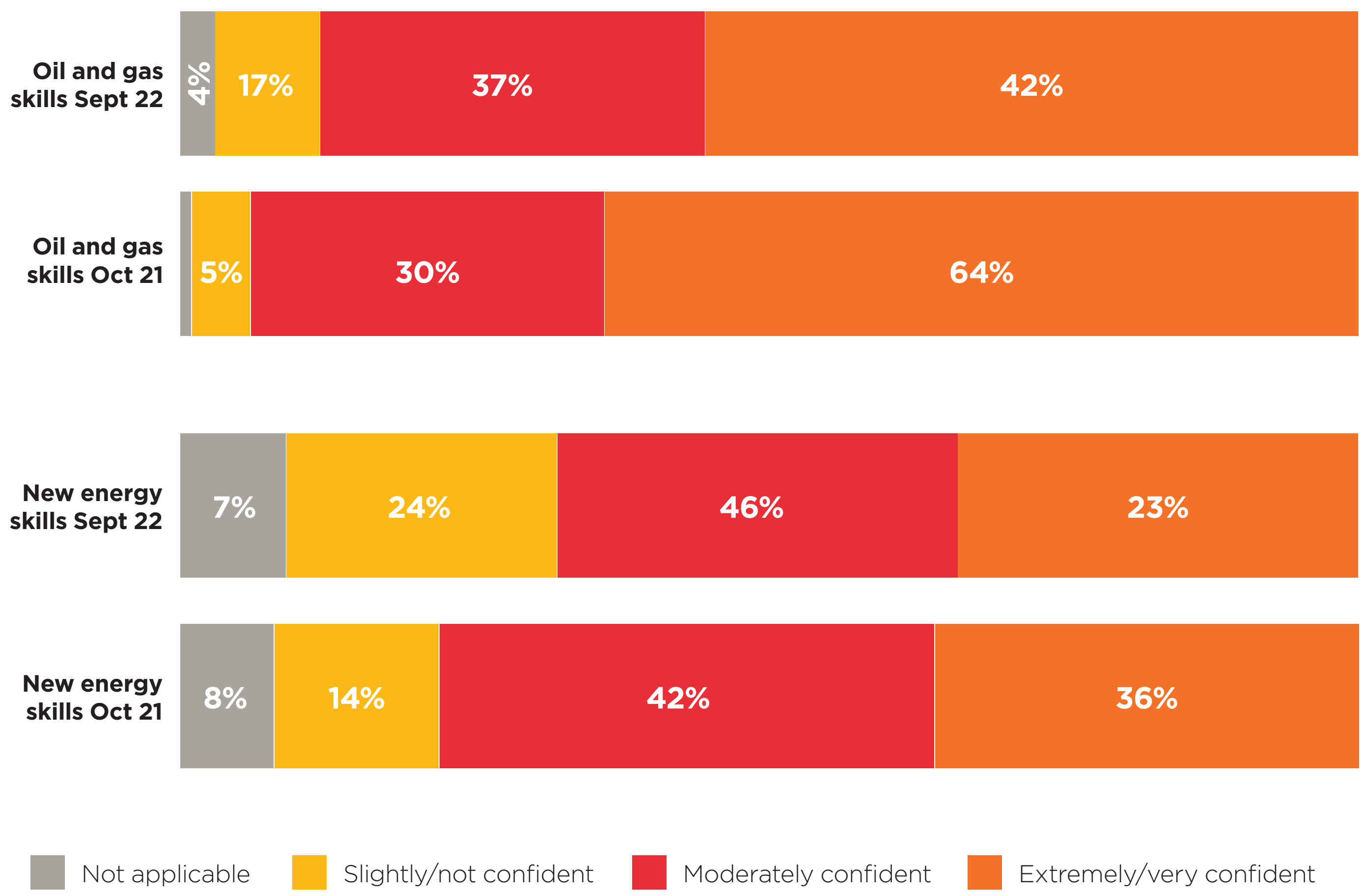
23. Continued significant increases in % of businesses experiencing difficulty in recruiting across the board

Q: Have you experienced any difficulties in recruiting any of the following roles?

Skills area	Technical	Trades	Managerial	Admin
% experiencing difficulty in recruiting *(percentage point change v Oct 21)*	**64%** (+38pp)	**50%** (+38pp)	**44%** (+33pp)	**24%** (+24pp)

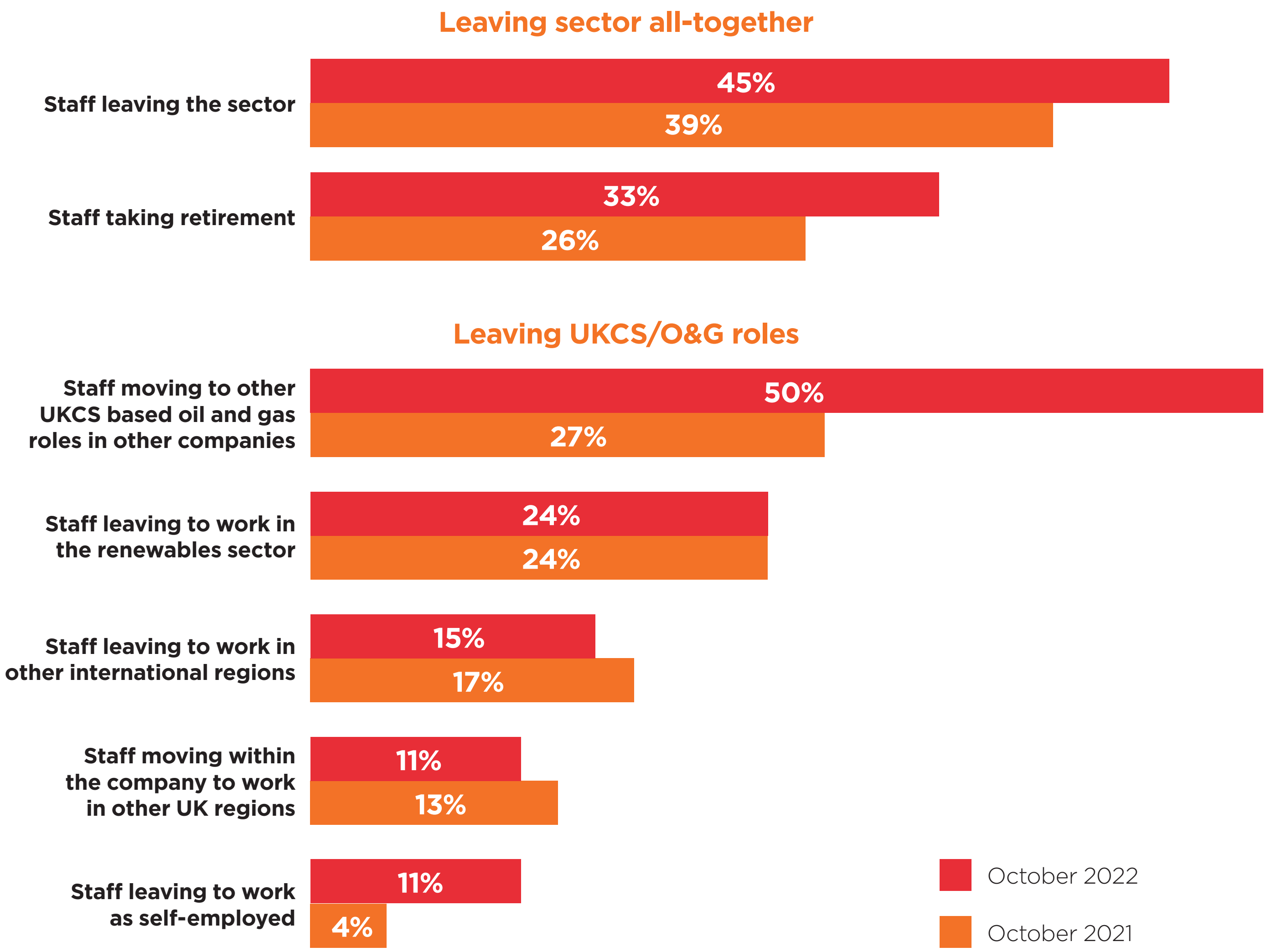
24. Dropping levels of confidence in securing oil and gas skills. Even lower levels of confidence in securing people with new energy technology skills

Q: How confident are you that your businesses will be able to secure the skills you need to deliver your longer term strategic objectives?



25. Continuing indicators of a skills drain and inter-company churn

Q: Are you losing more UK-based qualified staff than usual to any of the following?
(percentage point change v Oct 21)



Delmar Systems case study

Tell us a little bit about your business?

Delmar Vryhof is a company registered in Scotland, part of the global Delmar group of Companies, further to the acquisition of Deep Sea Mooring and Vryhof in 2021. The company specialize in provision of mooring equipment and mooring services, primarily to the Oil and gas sector but are now transitioning to also supply the renewables sector supporting several floating wind projects locally. Having an Anchor OEM (Original Equipment Manufacturer) in-house provides a unique selling point that separates us from the competition.

Can you tell us about the transition journey your business has been on?

The transition to floating wind has been very fast. The initial venture into renewables was to seek to penetrate the onshore wind market supplying the likes of rigging equipment and this gave us the network of contacts from the renewables sector. The big steps forward came when the onshore wind market was to be complemented by floating wind offshore. Our 50+ years of experience in all things subsea in the harshest of environments with the North Sea our home market, meant that we were very well placed to advise on the safest way to install and moor steel structures many miles offshore in deep water in a safe manner, having learned all the lessons through experience in this area. We are expert in provision of mooring services, and the same principles that apply to mooring a semi-submersible oil rig apply to mooring offshore floating wind structures, and indeed multiple wind turbines within a wind farm.
This has enabled us to be at the forefront of design input and engineering for the floating wind farms, and with the ability to also procure the equipment, install the equipment and to maintain it over 40 years in the field subsea, eventually decommissioning the assets at the end of life.

What advice would you give to businesses embarking on a similar transition journey?

For a company entering this market, it is very clear there is an insufficient global supply chain to support the local Scotwind projects alone. In addition, we have the Celtic Sea Cluster projects and other local projects to fulfill in the transition to net zero. Beyond this there is a global market as every country is pursuant to the move to cleaner energy, and with the focus also on security as well as affordability and cleaner energies there are a number of opportunities for Scottish companies to spread their wings further afield. Scotland and UK are rightly viewed as global leaders in construction of wind farms aligned to our vast knowledge and experience of all things mooring subsea.

Aberdeen & Grampian Chamber of Commerce

Energy Transition

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Aberdeen & Grampian Chamber of Commerce

Chamber viewpoint

Trust is a fragile thing – it is very hard to earn, and very easy to lose.

It is a subject which features regularly in this long-running survey, which is now in its 19th year.

We know that the energy sector is one which does not like fiscal surprises, and its perennial plea for a stable tax regime has become a mantra in these reports over the years.

Fiscal predictability is the unwritten contract upon which global investors pour billions of pounds of long-term capital expenditure into this country. It is the foundation for investor confidence in the North Sea. The basis of trust in UK plc.

However, that confidence has been shattered by the UK Government's summer of chaos.

Since the last edition of this report in May, we've had three different prime minsters and four different chancellors. And in that time, the UK Government's stance on a windfall tax for the energy sector has gone from being against it (Johnson and Sunak), to being for it (U-turn by Sunak), to being against it (Truss and Kwarteng), to Sunak returning to office.

The result is we now have an energy sector paying some of the highest corporate taxes in the world, trying to operate in one of the globe's most mature and challenging basins, while also investing in the new low carbon energies of the future.

The clamour for windfall taxes is understandable, but the whole debate has been driven by politicians unwilling to listen the hard truths which lie behind this populist policy.

The energy transition is going to cost tens of billions of pounds. And it is becoming abundantly clear that the UK's public finances are not in a position to share that bill.

At a time when oil and gas producers are being asked to invest more to help ensure the UK's energy security and make longer-term investments in renewables, additional taxes risk undermining their ability to do either.

Half of the companies surveyed for Energy Transition 36 said that the current political environment was a barrier to their diversification into new low carbon energies.

And it is easy to see why. Research published recently by Aberdeen & Grampian Chamber of Commerce this autumn showed that operators and licensees have been paying an average of £45.6million in tax per day during the third quarter of the year.

The UK Government's tax-take from the sector so far in 2022 is up nearly 700% on last year, following the introduction of a windfall tax in May.

We have warned repeatedly that windfall taxing the sector risks diverting money away from our energy transition, which will in turn make the current situation worse. And we are now beginning to see some of the industry's biggest figures reflecting this position.

Linda Cook, Chief Executive of Harbour Energy, said the fiscal changes have created uncertainty for independent oil and gas companies like Harbour.

As a result, evaluating expected returns from long-term investments has become more difficult, she said, adding that and investors are "advocating for geographic diversification".

Sam Laidlaw, chair of Neptune Energy, made similar remarks, noting that the boardrooms of Oslo, Paris, Houston and New York are seeking clarity about whether or not the UK is the right place to put their capital.

Mr Laidlaw says that energy investors will be following developments at Westminster closely, stating clearly that their investment capital and the UK's energy security are at stake.

If that doesn't send a chill down the Chancellor's spine, then nothing will.

The UK may have abundant energy sources, but, as Mr Laidlaw warns, the competition for capital stretches far beyond its borders.

Global investors have a choice where to allocate their funds. Many are going to need convincing after all that has happening in 2022.

However, there is a solution. The Investment Allowance put in place alongside the Energy Profits Levy allows companies to recycle capital from existing projects into new ones.

Currently, this is limited to oil and gas projects only. But if we are to finally inject some pace into the energy transition, then we need to see it extended to low carbon technologies.

That way, the windfall could literally be our deposit on a future of abundant clean energy, drawing billions of pounds of investment into Scotland.

But it requires long-term thinking that goes beyond our five-year election cycles. And brave politicians willing to stand up and state an uncomfortable truth; that poorly constructed windfall taxes will only make our problems worse.

We have a once in a lifetime chance to finance our energy transition. Failing to seize the opportunity would be unforgivable.

Ryan Crighton
Director of policy and marketing,
Aberdeen & Grampian Chamber of Commerce

Policy recommendations

Energy Transition 36 has once again provided an enlightening insight into the current mood and ambition of our energy sector. It also highlights the challenges we face as the UK transitions to lower carbon technologies. Some of these are being addressed via initiatives such as the North Sea Transition Deal and the Just Transition Fund, but there are areas where additional action is needed.

1) A stable tax and investment regime for the UK Continental Shelf

One of the most pressing concerns emerging from the report is around the tax and investment regime in the North Sea. Half of firms surveyed for this report said that the political and regulatory environment was a challenge for them, up from 24% a year ago, and it is little wonder, given the chaos at the heart of the UK Government throughout the summer. The Energy Profits Levy has made the North Sea – already one of the world's most mature basins – less attractive to investors. The biggest London-listed operator in the North Sea said the levy had made evaluating expected returns from long-term investments "more difficult" and that its "investors are advocating for geographic diversification". This statement should trouble those at the heart of government. This could place jobs, tax revenues and our domestic energy security at risk, and also limit ability and appetite to invest in the low carbon research and development we so desperately need.

The industry urgently needs to see no further increases and a fixed end point to the EPL, clarity on the price thresholds that constitute "excess profits" and how tax calculations will be affected in periods where the price fluctuates either side of the stated mark.

2) Extend the principle of incentivisation of investment in oil and gas production to oil and gas decarbonisation and broader energy transition activities

As the industry tries to accelerate down the road towards net zero, it was a mistake not to include investment in renewable and low carbon technology in this tax break. It should now be expanded to include investment in technologies such as offshore wind, hydrogen, carbon capture and storage and direct air capture – all of which are currently being developed in the North-east of Scotland. A reindustrialisation of Scotland is required to make sure we capitalise on our green energy potential. The additional tax receipts from a period of high energy prices provide an opportunity to enable this.

The implementation of the Energy Profits Levy was softened by an increased investment allowance, which now sees North Sea producers get a 91p tax saving for every £1 they invest in further oil and gas extraction. Additionally, capital committed to major decarbonisation projects such as electrification in the EPL window will retain the investment allowance for a period of at least two years beyond the end of the levy in 2025.

Capital Allowance reform outside of the EPL should include investment incentives for development of lower carbon energy sources as a part of the UK's future energy system.

3) Progress the Scottish Cluster

There has been a further decline in the number of firms who expect to be involved in carbon capture in the medium term, due possibly to the decision to label the Scottish Cluster as a 'reserve' project. Carbon capture and storage will be critical to our net zero ambitions, described as 'a necessity, not an option' by the Climate Change Committee. The UK Government should recognise the pressing need for additional carbon capture capacity, and the significant advantages the Scottish Cluster offers in reducing emissions via CO2 shipping from other parts of the UK and via direct air capture at St Fergus. The UK Government should reconsider this decision and progress the Scottish Cluster immediately.

4) Accelerate business transition to net zero

Encouragingly, 82% of the companies surveyed for this report agree that their energy transition credentials are key to their long-term success. However, there has been no great acceleration in the number of companies advancing their net zero plans. Business and government need to work together to ensure businesses are accelerating their net zero journey as quickly as possible. In part this is about government investing in an accelerated transition to unlock a green dividend in the years ahead and creating a clear pathway for smaller companies in particular to be supported through this journey.

Appendix

Research Approach

121 sector businesses (primarily contractors/service companies, collectively employing over 39,000 people in the UK) completed an online survey between 5th & 26th September 2022. The survey was managed by Research Chamber, Aberdeen & Grampian Chamber of Commerce and was emailed directly to the Chamber's energy database, promoted via Chamber channels and also via KPMG & ETZ.

The survey itself is in its' 36th iteration and is now more focussed on transition, reflecting the changing nature of the oil & gas/energy industry. KPMG has been a survey partner since 2017. ETZ co-partnered for the first time this year.

Thank you

The Research Chamber/Aberdeen & Grampian Chamber of Commerce would like to thank all energy businesses who responded to this survey. Without their voice, we could not have delivered this research.

Your continued support is invaluable to us in meeting our commitment to bring you independent and impartial insights into the key issues facing your business and the wider sector.

We would also like to thank our partners, KPMG UK and ETZ Ltd for their ongoing support of this strategically important research work, helping the sector's voice be heard.

Finally, we also thank members of our research team: Amanda Baffour-Awuah, Laura Henry, Mairi Irvine & Sarah Akere for their support with this work.

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Research Chamber

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Contact us at **researchchamber@agcc.co.uk**